STANDING COMMITTEE REPORT NO. 14-113

RE: C.B. NO. 14-148/HESA

SUBJECT: SOCIAL SECURITY AMENDMENTS

SEPTEMBER 18 , 2006

The Honorable Peter M. Christian
Speaker, Fourteenth Congress
Federated States of Micronesia
Fifth Regular Session, 2006

Dear Mr. Speaker:

Your Committee on Health Education and Social Affairs, to which was referred C.B. No. 14-148, entitled:

> "A BILL FOR AN ACT TO FURTHER AMEND TITLE 53 OF THE CODE OF THE FEDERATED STATES OF MICRONESIA, AS AMENDED, BY AMENDING SECTION 603 TO CHANGE THE DEFINITION OF CHILD, DISABILITY, FULLY INSURED AND WAGES, BY AMENDING SECTION 804 TO CHANGE BENEFIT LEVELS, BY ENACTING A NEW SECTION 903 TO ALLOW FOR VOLUNTARY PARTICIPATION IN THE SOCIAL SECURITY SYSTEM, AND FOR OTHER PURPOSES.",

begs leave to report as follows:

The intent and purpose of the bill are expressed in its title.

The subject bill would make a number of changes to the FSM social Security intended to improve the long-term viability of the system.

The President, via Presidential Communication No. 14-154 transmitted an actuarial assessment along with the bill. The actuary estimates that overall the changes will decrease the Social Security Administration's unfunded liability by $5.6 million.

Your Committee is satisfied that, for the most part, these changes are needed to reduce the unfunded liability of the Social Security System, which currently stands at in excess of 80%. This circumstance, if maintained on an on-going basis, presents a danger to the future viability of the fund. Nevertheless, measures aimed at improving the position of the Social Security System must not undermine its function as a provider of an effective safety net for retirees, disabled people and their dependents. Your Committee therefore urges the Social Security Administration to continue to work to prevent any unnecessary hardship for beneficiaries of the fund.

Your Committee held a public hearing in relation to the subject bill on May 17, 2006 during which the Social Security Administrator outlined the rationale for the changes in detail.

The subject bill contains a number of proposed changes to title 53 and a discussion of each follows.

First, the definition of child would be amended to exclude any child who is adopted after the adopting parent turns 55 years of age. The practical effect of this amendment would be to prevent such adopted children from receiving any benefit should the adopting parent pass away.

The Social Security Administrator has indicated that at present a large number of adoptions are taking place simply in order to obtain eligibility for surviving child benefits. Your Committee agrees the current provision may be open to abuse. However, we are concerned that in certain circumstances, this amendment would remove the entitlements of legitimate claimants for surviving child benefits. Your Committee therefore recommends an amendment, as set out in the attached CD1 version of the bill. This amendment would allow an exception to be made for adoptions by an adopting parent over 55 when the circumstances warrant it, for example, when the adoption takes place out of practical necessity rather than to obtain eligibility for a benefit.

Second, the subject bill would amend the definition of 'disability' to exclude impairment caused by alcohol or substance abuse. The intended effect of this amendment is to exclude individuals whose inability to work is caused by alcohol or substance abuse from eligibility for disability benefits. Your Committee is concerned that this proposed amendment will not only be extremely difficult to implement, but also that it is unnecessarily punitive. During the public hearing on the subject the Social Security Administrator indicated that this amendment was not integral to the bill and we therefore recommend that it be removed. The attached C.D.1 version of the bill reflects this recommendation.

Third, the subject bill increases the maximum number of quarters required to be fully insured from 38 to 50 for those individuals who retire and from 38 to 45 for those individuals who become disabled after December 31, 2006. In light of the significant problems the Social Security Administration faces in relation to its ongoing unfunded liability your Committee accepts that this change may be necessary.

Fourth, the subject bill would increase the maximum contribution per quarter gradually over time from its current level of $3,000 to $10,000 in 2028. Your Committee likewise accepts that the long-term viability of the fund may depend on changes such as this.

Fifth, the retirement and disability benefits currently paid are made up of 16.5% of all cumulative covered earnings up to the first $10,000, 3% of the next $30,000 and 2% of all cumulative covered earnings in excess of $40,000. The subject bill proposes a new benefit rate of 1% for cumulative covered earnings in excess of $302,500. The Social Security Administrator has advised that at present there are very few individuals whose cumulative covered earnings exceed $302,500,000, however, it is anticipated that over time this amendment will begin to have a significant impact. Your Committee supports this amendment in order to ensure the on-going viability of the fund.

Sixth, the subject bill would increase the minimum monthly benefit from $50 to $75, with a further increase to $100 in 2012. The objective of the Social Security system must be to provide an adequate safety net for individuals without alternative means of support upon retirement or in the case of disability. The cost of living in the FSM continues to increase, particularly in light of the rising cost of petroleum. Your Committee supports this amendment and urges the Social Security Administration to make further increases to the minimum benefit rate if and when it has sufficient resources to do so without jeopardizing the long-term future of the fund.

After careful consideration, and consultation with the Social Security Administration your Committee recommends a further amendment to title 53. Congress recently passed Public Law No. 14-37, which, among other things, contained an amendment to limit the entitlement of non-resident expatriate workers. Under the new law non-resident expatriate workers, with some exceptions, are not entitled to receive monthly benefit payments, rather, they may receive a lump sum equal to their own contributions upon reaching the age of 60. This change was intended to avoid the onerous administrative burden and cost of delivering benefit payments to individuals living in various locations around the world. Your Committee is satisfied that overall this change is appropriate. However, we recommend a further amendment to permit participating expatriates to receive the lump sum at the time they cease to reside in the FSM. The recommended change is reflected in the attached C.D.1 version the bill and contains a safeguard to ensure that an expatriate worker who returns to the FSM after receiving a lump sum payment will not receive a double benefit.

Finally, the C.D.1 version contains a number of technical changes to eliminate certain typographical errors contained in the introduced version of the bill.

With the foregoing amendments, your Committee on Health Education and Social Affairs is in accord with the intent and purpose of C.B. No. 14-148 and recommends its passage on First Reading and that it be placed on the Calendar for Second and Final Reading in the form attached hereto as C.B. No. 14-148, C.D.1.

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Respectfully submitted,

/s/ Resio S. Moses
Resio S. Moses, chairman

/s/ Tiwiter Aritor
Tiwiter Aritos, vice chairman

Dohsis Halbert, member

Roosevelt D. Kansou, member

/s/ Manny Mori
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/s/ Ramon Peyal
Ramon Peyal, member

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